

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2011-5-G - ORDER NO. 2012-39
JANUARY 12, 2012

IN RE: Annual Review of Purchased Gas)	ORDER ON PGA AND
Adjustment and Gas Purchasing Policies of)	ADOPTING
South Carolina Electric & Gas Company)	SETTLEMENT
)	AGREEMENT

This matter comes before the Public Service Commission of South Carolina (“the Commission”) for annual review of the Purchased Gas Adjustment and the Gas Purchasing Policies (“PGA”) of South Carolina Electric & Gas Company (“SCE&G” or “Company”), as required by Order No. 87-898, issued on August 14, 1987. Pursuant to that Order, the Commission opened the present docket for the purpose of conducting SCE&G’s 2011 annual PGA review. On June 7, 2011, the Commission scheduled a hearing for this matter for November 10, 2011 and issued a Notice of Hearing and set return dates for intervention. The period under review in this docket is August 1, 2010 through July 31, 2011 (“Review Period”).

As the natural gas utility under review, SCE&G was automatically made a party to the proceeding. By letter dated June 7, 2011, the Commission instructed the Company to publish the Notice of Hearing in a newspaper of general circulation in the affected areas advising all interested parties of the manner and time in which to file pleadings to obtain the right to participate in this proceeding. The Commission further instructed

SCE&G to provide notification of the PGA review to each affected customer via U.S. Mail or by electronic mail to those customers who have agreed to receive notices by electronic mail on or before September 2, 2011, and to provide certification on or before September 23, 2011. The Company filed Affidavits to confirm its compliance with the Commission's instructions on August 24, 2011.

The South Carolina Office of Regulatory Staff ("ORS") is a party in this matter pursuant to S.C. Code Ann. § 58-4-10 (Supp. 2010). No other parties sought to intervene in this proceeding.

By letter dated June 7, 2011, the Commission's Clerk's Office issued scheduling directions to all parties establishing the dates for the parties to pre-file testimony and exhibits in this case.

On September 23, 2011, SCE&G pre-filed the direct testimony of witnesses Martin K. Phalen, Rose M. Jackson, and Alice A. Fox. On October 7, 2011, ORS pre-filed the direct testimony of witnesses John O. Powers and Carey M. Stites.

On November 2, 2011, ORS and SCE&G (collectively the "Settling Parties") filed a comprehensive Settlement Agreement ("Settlement Agreement") wherein they stipulated to a resolution of all issues in the proceeding.

The Commission conducted a formal hearing in this matter on November 10, 2011, beginning at 10:30 a.m. in the hearing room of the Commission, with the Honorable John E. Howard presiding. K. Chad Burgess, Esquire, Matthew W. Gissendanner, Esquire, and Mitchell M. Willoughby, Esquire, represented the Company. Jeffrey M. Nelson, Esquire, represented ORS.

At the opening of the hearing, Mr. Nelson moved the Settlement Agreement between the Settling Parties into the record, along with the pre-filed testimony and exhibits of all ORS witnesses. The Settlement Agreement (including Attachment 1, Settlement Testimony of Rose M. Jackson, and Exhibit 1, Audit Exhibit JOP-1) is identified as Hearing Exhibit 1, and Hearing Exhibit 2 contains the exhibits of ORS Witness Powers. Mr. Burgess moved into the record the pre-filed testimony and exhibits of all SCE&G witnesses. Hearing Exhibit 3 contains the exhibits of SCE&G Witnesses Jackson and Fox.

In support of its PGA and Gas Purchasing Policies and the Settlement Agreement and as stipulated in the Settlement Agreement, SCE&G presented direct testimony from Martin Phalen, Rose Jackson and Alice Fox. ORS presented direct testimony from John Powers and Carey Stites. Consistent with the terms of the Settlement Agreement, the witnesses who pre-filed direct testimony in this proceeding and orally presented such testimony before the Commission were subject to questioning by the Commissioners, and not by any party.

The Commission has considered the testimony and the exhibits of the witnesses and the other evidence of record in this proceeding including the Settlement Agreement. Based on the evidence of record, the Commission concludes, as the Parties have stipulated, that adoption of the Settlement Agreement is in the best interest of SCE&G's customers, the State of South Carolina, and the financial integrity of the Company.

In making this finding, the Commission specifically finds that during the Review Period, SCE&G (a) properly administered the purchased gas adjustment and correctly

adjusted the gas cost recovery factors for each customer class in accordance with the terms of Order No. 2006-679 as modified by Order No. 2009-910; (b) employed prudent gas purchasing practices and policies; (c) recovered its gas costs consistent with applicable tariffs and Commission orders, subject to the adjustment described in the testimony of ORS Witness Powers, and administered the PGA in a prudent and reasonable manner; (d) conducted and administered its hedging program consistent with the authorization granted in Order No. 2006-679 and as modified in Order No. 2008-546; and (e) was prepared during the Review Period and is currently prepared to meet its firm customers' projected needs via its future supply and capacity asset plans.

The Commission further finds that the monthly adjustment procedure and notification procedure for total cost of gas factors as adopted in Commission Docket No. 2006-5-G, Order No. 2006-679 as modified in Docket No. 2009-5-G, Order No. 2009-910 should be maintained. The parties have agreed, and we find it appropriate, that the demand charges included in the total cost of gas factors will continue to be calculated as set forth in Commission Docket No. 2006-5-G, Order No. 2006-679 by distributing such costs among the rate schedules based upon a 50-50 allocation of peak design day demand and annual forecast sales. SCE&G agrees to use the 50-50 allocation of peak design day demand and annual forecast sales for demand charges in any recalculation of total cost of gas factors. We further find the allocation factors of Residential 66.10%, Small General Service/Medium General Service 31.52%, and Large General Service 2.38%, as set forth in SCE&G Witness Fox's pre-filed direct testimony, to be appropriate for use in the cost of gas calculations beginning with the first billing cycle of January 2012.

We accept the use of ORS's cost of gas calculations for the period August 1, 2010 through July 31, 2011 as set forth in Settlement Exhibit No. 1 attached to Hearing Exhibit No. 1.

The Commission further approves the authority of SCE&G to continue to charge and recover carrying costs, if applicable, on the cumulative total over/under collection balances using the same method and with the same limitations as set forth by the Commission in Docket No. 2006-5-G, Order No. 2006-679 for the same reasons set forth in that Order. Pursuant to that Order and in the event of an over-collection balance, carrying costs shall be credited to customers.

The Commission also finds that the Company conducted its hedging program during the Review Period prudently and consistent with the approvals granted in Orders No. 2006-679 and 2007-595 as modified by Order No. 2008-546. However, we find reasonable the Parties' settlement position: 1) that the Company's hedging program should be suspended at this time in light of the current relative stability in gas markets and prices as a result of new domestic shale gas production and 2) that the SCE&G hedging program should be suspended effective as of the date of service of this Order. Thereafter, the Company shall not acquire any new financial hedges for its natural gas supplies until further directive or order of this Commission.

Those financial hedges currently in place shall be maintained and managed consistent with SCE&G's approved hedging program and will be audited by ORS in SCE&G's succeeding PGA proceedings. Assuming the existing hedges were purchased in accordance with the Commission approved program, all unrecovered costs of operating

the program and any unrecovered additions to the cost of gas shall be permitted to be recovered by SCE&G through its costs of natural gas. Likewise, consistent with previous Commission practice and precedent, any gains (not previously accounted for) shall be booked as subtractions to the cost of gas.

Until such time as all of SCE&G's existing hedges expire, the Commission finds that SCE&G's hedging program shall continue to be operated independent of and shall be accounted for separate from its purchase of physical gas supply.

SCE&G shall continue to report to ORS and the Commission within thirty (30) days of the close of each month the results of its existing financial hedges along with other information as stipulated in the Settlement Agreement. Following the expiration of all of SCE&G's existing hedges, SCE&G shall no longer be required to submit reports on the hedging program to anyone, including the Commission and ORS. Based on the testimony and exhibits and the Settlement Agreement entered into the record of this proceeding, the Commission finds that the Company's gas purchasing policies and practices during the Review Period were reasonable and prudent. The Commission further finds that all matters contained in the Settlement Agreement are appropriate for adoption in this proceeding and therefore finds that the Settlement Agreement is in the public interest and is a reasonable resolution of all issues in this case.

NOW THEREFORE, based upon the foregoing, IT IS HEREBY DECLARED
AND ORDERED THAT:

1. The Settlement Agreement attached hereto as Order Exhibit No. 1, which was stipulated to by the Settling Parties and accepted into the record without objection at

the hearing, is incorporated into and made a part of this Order. Further, the Settlement Agreement constitutes a reasonable resolution to this proceeding and is hereby adopted as such.

2. During the Review Period, SCE&G properly administered the purchased gas adjustment. SCE&G also correctly adjusted the gas cost recovery factors for each customer class in accordance with the terms of Orders No. 2006-679 and 2009-910, which factors are hereby approved.

3. SCE&G's gas purchasing policies and practices during the Review Period were within the guidelines established in prior Commission orders and were reasonable and prudent.

4. With the adjustment described by ORS Witness Powers, SCE&G recovered its gas costs consistent with applicable tariffs and Commission orders during the Review Period.

5. The appropriate cost of gas calculations for the Review Period are set forth in Order Exhibit No. 1.

6. The demand charges included in the total cost of gas factors should continue to be calculated as set forth in Commission Docket No. 2006-5-G, Order No. 2006-679 by distributing such costs among the rate schedules based upon a 50-50 allocation of peak design day demand and annual forecast sales.

7. The monthly adjustment procedure and notification procedure for the total cost of gas factors as adopted in Order No. 2006-679, as amended by Order 2009-910, shall be maintained.

8. The allocation factors contained in SCE&G Witness Fox's pre-filed direct testimony are appropriate and should be used for cost of gas calculations beginning with the first billing cycle of January 2012.

9. SCE&G shall continue to charge and recover carrying costs, if applicable, on the cumulative total over/under collection balances in the same method and with the same limitations as set forth by the Commission in Docket No. 2006-5-G, Order No. 2006-679. In the event of an over-collection balance, carrying costs shall be credited to customers.

10. SCE&G conducted its hedging program during the Review Period prudently and consistent with the approvals granted in Docket No. 2006-5-G, Order No. 2006-679 and modified by Order No. 2008-546.

11. SCE&G's hedging program is suspended, effective on the date of service of this Order on SCE&G. After service of this Order on SCE&G, the Company shall not acquire any new financial hedging positions until further directive or order of the Commission.

12. SCE&G's existing hedges shall continue to be maintained and managed consistent with the Company's approved hedging program and shall be audited by ORS in SCE&G's succeeding PGA proceedings. As stipulated in the Settlement Agreement, and assuming that existing hedges were purchased in accordance with the Commission approved program, all unrecovered costs of operating the programs and any unrecovered additions to the cost of gas shall be permitted to be recovered by SCE&G through its

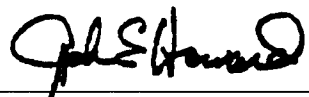
costs of natural gas. Likewise, any gains (not previously accounted for) shall be booked as subtractions to the cost of gas.

13. SCE&G shall continue to report to ORS and the Commission within thirty (30) days following the close of each month the results of the hedging program for the preceding months as stipulated in the Settlement Agreement.

14. The actual balance in the Company's unbilled gas cost adjustment account shall continue to be applied to the PGA over/under collection calculation, and the Company shall consider this unbilled gas cost adjustment account in all future PGA calculations. Future monthly adjustments shall continue to be applied to the demand component of the cost of gas factor.

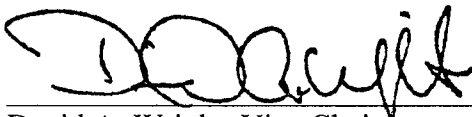
15. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



John E. Howard, Chairman

ATTEST:



David A. Wright, Vice Chairman

(SEAL)

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2011-5-G

November 2, 2011

IN RE:

Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of South Carolina Electric & Gas Company))))	SETTLEMENT AGREEMENT
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This Settlement Agreement (“Settlement Agreement”) is made by and between the South Carolina Office of Regulatory Staff (“ORS”) and South Carolina Electric & Gas Company (“SCE&G” or “Company”) (collectively referred to as the “Parties” or sometimes individually as “Party”);

WHEREAS, on June 7, 2011, the Public Service Commission of South Carolina (“Commission”) issued the notice of hearing for the 2011 Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies (“PGA”) of SCE&G;

WHEREAS, the purpose of this proceeding is to review matters related to SCE&G's gas purchasing practices and policies, administration of its purchased gas adjustment, and the recovery of its gas costs;

WHEREAS, the period under review in this docket is August 1, 2010 to July 31, 2011 (“Review Period”);

WHEREAS, ORS examined the books and records of SCE&G and conducted inquiries and analyses related to the Company's gas purchasing practices and policies, administration of its purchased gas adjustment, and the recovery of its gas costs for the Review Period;

WHEREAS, ORS determined that during the Review Period, SCE&G: a) properly administered the purchased gas adjustment and correctly adjusted the gas cost recovery factors for each customer class in accordance with the terms of Order No. 2006-679 as modified by Order No. 2009-910; b) employed prudent gas purchasing practices and policies; c) recovered its gas costs consistent with applicable tariffs and Commission orders; d) conducted and administered its hedging program consistent with the authorization granted in Order No. 2006-679 and as modified in Order No. 2008-546; and e) was prepared during the Review Period and is currently prepared to meet its firm customers' projected needs via its future supply and capacity asset plans;

WHEREAS, in Docket No. 2011-82-G, ORS filed a request with the Commission for the suspension of the SCE&G and Piedmont Natural Gas Company, Inc. hedging programs based on current and forecasted natural gas market conditions, which request ORS subsequently withdrew based upon its recommendation that the hedging programs for each company should be addressed on an individual case basis in their respective annual PGA dockets;

WHEREAS, consistent with ORS's position in Docket No. 2011-82-G, ORS has completed its evaluation of SCE&G's hedging program as part of this annual PGA review and recommends SCE&G's hedging program be suspended at this time;

WHEREFORE, the Parties have engaged in discussions and in the spirit of compromise, the Parties hereby stipulate and agree to the following terms and conditions:

1. The Parties agree to stipulate into the record before the Commission this Settlement Agreement. The Parties further agree to stipulate into the record the pre-filed direct testimony and exhibits of Martin K. Phalen, Rose M. Jackson, Alice A. Fox, John O. Powers, and Carey M. Stites and the pre-filed settlement testimony of Rose M. Jackson included herein as Attachment 1

without cross-examination. Furthermore, each witness will take the stand to present his or her testimony and, if necessary, make non-material changes to their testimony comparable to those that would be presented via an errata sheet or through a witness noting a correction. With respect to this Settlement Agreement, Company Witnesses Jackson and Fox are the witnesses designated to be primarily responsible for providing support for the Settlement Agreement at the hearing scheduled in this case.

2. The Parties agree that a carrying cost adjustment in the amount of \$25,702, has been applied to increase the Company's cumulative over collection balance to account for the initial effect of including unbilled purchased gas costs, as approved in Order No. 2009-910, in the interest calculation on the (Over)/Under-collected balance. The Parties also agree that a second adjustment, in the amount of \$825,176, has been applied to decrease the Company's cumulative over collection balance to account for the removal of net credits in its gas cost calculations. Finally, the Parties agree that a third adjustment, in the amount of \$583,926, has been applied to increase the Company's cumulative over collection balance to account for the Company's assignment of commodity cost of gas supply for Jasper electric as gas costs for its LDC operations. For the purpose of setting the gas cost recovery factors, the Parties accept the use of ORS's cost of gas calculations for the period August 1, 2010 through July 31, 2011 as set forth in Settlement Exhibit No. 1 attached hereto.

3. The Parties agree to maintain the monthly adjustment procedure and notification procedure for the total cost of gas factors as adopted in Commission Order No. 2006-679 and amended by Commission Order No. 2009-910.

4. The Parties acknowledge the demand charges included in the total cost of gas factors will continue to be calculated as set forth in Commission Docket No. 2006-5-G, Order No. 2006-

679 by distributing such costs among the rate schedules based upon a 50-50 allocation of peak design day demand and annual forecast sales. SCE&G agrees to use the 50-50 allocation of peak design day demand and annual forecast sales for demand charges in any recalculation of total cost of gas factors under this Settlement Agreement. The Parties agree that the allocation factors contained on pages 3-4 in Ms. Fox's pre-filed direct testimony (Residential 66.10%; Small General Service/Medium General Service 31.52%; and Large General Service 2.38%) are appropriate and should be used for the cost of gas calculations beginning with the first billing cycle of January 2012.

5. As part of this Settlement Agreement, the Parties agree that SCE&G shall continue to charge and recover carrying costs, if applicable, on the cumulative total over- or under-collection balances in the same method and with the same limitations as set forth in Commission Docket No. 2006-5-G, Order No. 2006-679.

6. The Parties agree that the hedging program and methodologies approved by Commission Order No. 2006-679 in Docket No. 2006-5-G for the Company's natural gas supplies were conducted and administered during the Review Period consistent with Order No. 2006-679 and as modified by Order No. 2008-546.

7. SCE&G agrees with ORS's recommendation that the Company's hedging program should be suspended at this time, subject to Commission approval of this Settlement Agreement and to the terms and conditions set forth herein.

8. The Parties agree that, in the event the Commission approves this Settlement Agreement and the suspension of the hedging program as set forth herein, SCE&G's hedging program should be suspended effective on the date of notice of the Commission's decision to SCE&G to suspend its program, which suspension shall continue until the Commission orders

otherwise. Thereafter, the Parties agree that SCE&G shall not acquire any new financial hedging positions for its natural gas supplies until further directive or order of the Commission.

9. The Parties recognize that there are financial hedges in place under the provisions of Order No. 2006-679 as modified by Order No. 2008-546. In the event the Commission approves this Settlement Agreement and the suspension of the hedging program as set forth herein, the Parties agree that all of SCE&G's existing hedges should continue to be maintained and managed consistent with SCE&G's approved hedging program and should be audited by ORS in SCE&G's succeeding PGA proceedings. The Parties further agree that, assuming existing hedges were purchased in accordance with the Commission approved program, all unrecovered costs of operating the programs and any unrecovered additions to the cost of gas should be permitted to be recovered by SCE&G through its costs of natural gas. Consistent with previous Commission practice and precedent, any gains (not previously accounted for) will be booked as subtractions to the cost of gas.

10. Until such time as all of SCE&G's existing hedges expire, SCE&G agrees to continue reporting to the Commission and ORS within 30 days following the close of each month the results of the hedging program for the preceding month, which report shall include the hedging transactions closed-out during the month, the additions to or subtractions from the cost of gas resulting from closed-out contracts, the costs of operating the program during the month, and a list of open transactions as of the last day of the month for each succeeding month. Following the expiration of all of SCE&G's existing hedges, SCE&G shall not be required to submit reports on the hedging program to the Commission or ORS unless and until the Commission orders otherwise.

The Parties further agree that, until such time as all of SCE&G's existing hedges expire, SCE&G's hedging program shall continue to be operated independent of and shall be accounted for separate from its purchase of physical gas supply.

11. ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B). S.C. Code § 58-4-10(B)(1) through (3) reads in part as follows:

- ... 'public interest' means a balancing of the following:
- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
 - (2) economic development and job attraction and retention in South Carolina; and
 - (3) preservation of the financial integrity of the State's public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.

ORS believes this Settlement Agreement reached among the Parties serves the public interest as defined above.

12. The Parties agree to advocate that the Commission accept and approve this Settlement Agreement in its entirety as a fair, reasonable and full resolution of all issues in the above-captioned proceeding and to take no action inconsistent with its adoption by the Commission. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

13. The Parties agree that signing this Settlement Agreement will not constrain, inhibit, impair, or prejudice their arguments or positions held in other collateral proceedings, nor will it constitute a precedent or evidence of acceptable practice in future proceedings. If the Commission declines to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty or obligation.

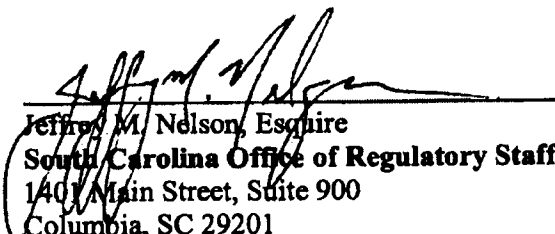
14. This Settlement Agreement shall be interpreted according to South Carolina law.

15. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by affixing its signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement. The Parties agree that in the event any Party should fail to indicate its consent to this Settlement Agreement and the terms contained herein, then this Settlement Agreement shall be null and void and will not be binding on any Party.

[SIGNATURES ON THE FOLLOWING PAGES]

WE AGREE:

Representing the South Carolina Office of Regulatory Staff



Jeffrey M. Nelson, Esquire
South Carolina Office of Regulatory Staff
1401 Main Street, Suite 900
Columbia, SC 29201
Phone: (803) 737-0823
Fax: (803) 737-0895
Email: jnelson@regstaff.sc.gov

WE AGREE:

Representing South Carolina Electric & Gas Company



K. Chad Burgess, Esquire
Matthew W. Gissendanner, Esquire
South Carolina Electric & Gas Company
Mail Code C222
220 Operation Way
Cayce, South Carolina 29033-3701
Phone: (803) 217-8141
Fax: (803) 217-7931
Email: chad.burgess@scana.com
matthew.gissendanner@scana.com

Mitchell Willoughby, Esquire
Willoughby & Hoefer, P.A.
Post Office Box 8416
930 Richland Street
Columbia, SC 29202-8416
Phone: (803) 252-3300
Fax: (803) 256-8062
Email: mwilloughby@willoughbyhoefer.com

**SETTLEMENT TESTIMONY OF
ROSE M. JACKSON
ON BEHALF OF
SOUTH CAROLINA ELECTRIC & GAS COMPANY
DOCKET NO. 2011-5-G**

1 **Q. ARE YOU THE SAME ROSE M. JACKSON THAT HAS PREFILED**
2 **DIRECT TESTIMONY IN THIS CASE?**

3 **A. Yes, I am.**

4 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY IN**
5 **THIS PROCEEDING?**

6 **A. In my settlement testimony, I discuss and support the settlement agreement**
7 **(“Settlement”) entered into by the parties in this proceeding and explain the terms**
8 **of the Settlement as they relate to SCE&G’s gas purchasing practices and the**
9 **administration of the hedging program for the period under review. Additionally,**
10 **I explain the terms of the Settlement related to the suspension of the Company’s**
11 **hedging program as recommended by ORS.**

12 **Q. PLEASE PROVIDE AN OVERVIEW OF THE TERMS OF THE**
13 **SETTLEMENT REACHED BY SCE&G AND ORS.**

14 **A. For the Review Period (August 1, 2010 through July 31, 2011), the parties**
15 **agree that SCE&G properly administered the purchased gas adjustment, correctly**
16 **adjusted the gas cost recovery factors for each customer class, employed prudent**
17 **gas purchasing practices and policies, recovered its gas costs appropriately, and**
18 **was and is prepared to meet the firm demand of its customers.**

1 **Q. HAVE THE PARTIES AGREED TO ANY FINANCIAL ADJUSTMENTS**
2 **AS A RESULT OF THE SETTLEMENT?**

3 A. Yes. As addressed by Company Witness Alice A. Fox and ORS Witness
4 John O. Powers, the Parties agree that three adjustments should be made to the
5 Company's (Over)/Under-collection amounts. First, the Parties agree that a
6 carrying cost adjustment in the amount of \$25,702 has been applied to increase the
7 Company's cumulative over-collection balance to account for the initial effect of
8 including unbilled purchased gas costs, as approved in Order No. 2009-910, in the
9 interest calculation on the (Over)/Under-collected balance. The Parties also agree
10 that a second adjustment, in the amount of \$825,176 has been applied to decrease
11 the Company's cumulative over-collection balance to account for the removal of
12 net credits in its gas cost calculations. Finally, the Parties agree that a third
13 adjustment in the amount of \$583,926 has been applied to increase the Company's
14 cumulative over-collection balance to account for the Company's assignment of
15 commodity cost of gas supply for Jasper electric as gas costs for its LDC
16 operations.

17 **Q. DO THE PARTIES RECOMMEND ANY CHANGES TO THE MONTHLY**
18 **ADJUSTMENT PROCEDURE OR NOTIFICATION PROCEDURE FOR**
19 **THE TOTAL COST OF GAS FACTORS?**

20 A. No. The parties have agreed to maintain the monthly adjustment procedure
21 and notification procedure for the total cost of gas factors as adopted in
22 Commission Order No. 2006-679 and amended by Commission Order No. 2009-

1 910. SCE&G and ORS have acknowledged that the calculation of the demand
2 charges included in the cost of gas factors will continue to be distributed among
3 the rate schedules based upon a 50-50 allocation of peak design day demand and
4 annual forecast sales. Further, the parties agree that the allocation factors as
5 contained in SCE&G Witness Alice Fox's pre-filed direct testimony are
6 appropriate and should be used for cost of gas calculations beginning with the first
7 billing cycle of January 2012. SCE&G has also agreed to continue to charge and
8 recover carrying costs in accordance with Commission Order No. 2006-679.

9 **Q. HOW DOES THE SETTLEMENT ADDRESS THE COMPANY'S**
10 **HEDGING PROGRAM?**

11 A. The parties agree that, during the Review Period, SCE&G conducted and
12 administered the hedging program consistent with Order No. 2006-679 and
13 modified by Order No. 2008-546. On a going forward basis, however, the parties
14 have agreed that the Company's hedging program for natural gas purchases should
15 be suspended at this time, subject to Commission approval.

16 **Q. WHY HAVE THE PARTIES AGREED TO SUSPEND THE HEDGING**
17 **PROGRAM AT THIS TIME?**

18 A. As the Commission is aware, on February 24, 2011, ORS filed in Docket
19 No. 2011-82-G a request for the suspension of the hedging programs for both
20 SCE&G and Piedmont Natural Gas Company, Inc. ("Piedmont"). In support of its
21 request, ORS stated that the market conditions which led to the institution of the
22 gas hedging programs to mitigate the impact to SCE&G's customers of significant

1 and unanticipated swings in the cost of natural gas no longer exist. Rather, ORS
2 determined that recent developments in gas production and the correlating
3 reduction in volatility in natural gas prices have eliminated much of the
4 unpredictability which previously existed in the natural gas market. Based upon
5 ORS's request, the Commission held oral arguments on this issue and issued a
6 Notice of Generic Hearing for all jurisdictional natural gas and electrical utilities
7 to file testimony and participate in a proceeding on this issue. On June 20, 2011,
8 ORS recommended that the Commission address each company's hedging
9 program on an individual case basis in their respective annual PGA dockets and
10 withdrew its Petition for the suspension of SCE&G's and Piedmont's gas hedging
11 programs. As indicated in the testimony of ORS Witness Carey M. Stites in this
12 proceeding, ORS completed its evaluation of SCE&G's hedging program as part
13 of this annual PGA docket and recommends SCE&G's hedging program be
14 suspended at this time.

15 **Q. DOES SCE&G AGREE WITH ORS'S RECOMMENDATION THAT THE**
16 **HEDGING PROGRAM BE SUSPENDED?**

17 A. In light of the current market conditions in which gas prices are among the
18 lowest and most stable in the global natural gas market coupled with SCE&G's
19 rolling 12-month forecast of demand and commodity costs which serves as a
20 mechanism to mitigate natural gas price volatility, SCE&G agrees with ORS's
21 recommendation that the hedging program be suspended. However, ORS and
22 SCE&G agree that a permanent elimination of the hedging program is not prudent

1 at this time due to unresolved environmental concerns regarding shale gas
2 production.

3 **Q. HOW DO THE PARTIES PROPOSE TO SUSPEND THE HEDGING**
4 **PROGRAM?**

5 A. As set forth in the Settlement, ORS and SCE&G agree that, in the event the
6 Commission approves this agreement and the suspension of the hedging program
7 as set forth herein, SCE&G's hedging program should be suspended effective on
8 the date of notice of the Commission decision to SCE&G to suspend its program.
9 Thereafter, SCE&G would not purchase any new hedges until further directive or
10 order of the Commission.

11 **Q. DOES SCE&G HAVE ANY OUTSTANDING FINANCIAL HEDGES IN**
12 **PLACE?**

13 A. Yes. Under the provisions of Order No. 2006-679 as modified by Order
14 No. 2008-546, SCE&G has purchased call options for natural gas through the
15 month of November 2012. ORS and SCE&G agree that all of SCE&G's existing
16 hedges should continue to be managed consistent with SCE&G's approved
17 hedging program and should be audited by ORS in SCE&G's succeeding PGA
18 proceedings. Assuming existing hedges were purchased in accordance with the
19 Commission approved program, SCE&G and ORS agree that all unrecovered
20 costs of operating the programs and any unrecovered additions to the cost of gas
21 should be permitted to be recovered by SCE&G through its cost of gas. Consistent
22 with previous Commission practice and precedent, any gains realized from hedges

1 would be booked as subtractions to the cost of gas. As previously ordered by the
2 Commission, SCE&G has agreed to continue reporting to the Commission and
3 ORS within 30 days following the close of each month the results of the hedging
4 program for the preceding month, until such time as all of SCE&G's existing
5 hedges expire. Additionally, the parties have agreed that the hedging program
6 shall continue to be maintained independent of and shall be accounted for
7 separately from its purchase of physical gas supply.

8 **Q. DOES THE COMPANY BELIEVE THE SETTLEMENT IS A**
9 **REASONABLE MEANS OF RESOLVING THE ISSUES IN THIS CASE?**

10 A. Yes, it does. The Company respectfully requests that the Commission
11 approve the Settlement Agreement entered by the parties in this proceeding and
12 the findings, terms and conditions contained therein and issue an order in this
13 proceeding incorporating its provisions.

14 **Q. DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?**

15 A. Yes, it does.

Exhibit 1

Audit Exhibit J08-1

SOUTH CAROLINA ELECTRIC AND GAS COMPANY, INC. - DOCKET NO. 2011-5-G
(OVER)UNDER REVENUE COLLECTION
FOR THE TWELVE MONTHS ENDED JULY 31, 2011

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Total Firm Commodity Cost	Total Firm Sales Therm	Commodity Cost Per Therm (1)-(2)	Billing Commodity Cost Per Therm (3)-(4)	Difference (3)-(4)	Commodity (Over)/Under Collection (2) X (5) \$	Desired (Over)/Under Collection \$	Prior Month Adjustments \$	Total Monthly (Over)/Under Collection (8)+(7)+(9) \$	Commodity (Over)/Under Collection \$
Aug-10 - Interest @ 3.131% Unallocated-Commodity Only Aug-10 - Reverse PPM Unbilled Revenue adjustment Aug-10 - Unbilled Revenue adjustment	3,033,346	6,370,349	0.46717	0.015498	(101,827) (24,386) 24,381 (103,945)	794,285 (6,089) 2,211,281 (1,811,127) 1,178,240			(13,577,351) 25,702 46 (13,551,683)
Sep-10 - Interest @ 3.169% Unallocated-Commodity Only Sep-10 - Reverse PPM Unbilled Revenue adjustment Sep-10 - Unbilled Revenue adjustment	2,463,063	6,831,403	0.43986	0.079415	(542,675) (28,178) 10,625	1,533,017 (2,323) 1,811,157 (1,507,083) 1,454,759		1,074,254	(13,477,389)
Oct-10 - Interest @ 3.270% Unallocated-Commodity Only Oct-10 - Reverse PPM Unbilled Revenue adjustment Oct-10 - Unbilled Revenue adjustment	3,725,137	8,281,879	0.46953	0.041927	347,402 (28,212) (2,619)	2,019,539 1,026 1,907,483 (2,589,646) 1,331,022		894,531	(11,582,778)
Nov-10 - Interest @ 3.449% Unallocated-Commodity Only Nov-10 - Reverse PPM Unbilled Revenue adjustment Nov-10 - Unbilled Revenue adjustment	7,827,164	14,039,635	0.557905	0.149855	2,103,910 (23,790) (9,890)	1,420,642 (1,390) 2,589,646 (6,314,933) (16,334,603) (13,993,279)	(25,702)	1,628,891	(9,953,887)
Dec-10 - Interest @ 3.550% Unallocated-Commodity Only Dec-10 - Reverse PPM Unbilled Revenue adjustment Dec-10 - Unbilled Revenue adjustment	24,874,112	34,462,816	0.721825	0.314175	10,827,335 8,270 (5,132)	(3,923,610) (32,899) 6,314,933 (16,334,603) (13,993,279)	0	(234,985)	(10,192,872)
Jan-11 - Interest @ 4.070% Unallocated-Commodity Only Jan-11 - Reverse PPM Unbilled Revenue adjustment Jan-11 - Unbilled Revenue adjustment	23,727,282	52,618,587	0.450098	0.067318	889,496 17,506 (350)	(6,409,946) (73,245) 16,334,603 (14,672,183) (4,588,771)	0	(3,164,906)	(13,357,778)
					894,531	82,5176		(3,177,443)	(14,535,281)

Ending Balance Statement Exhibit 1 @ July 31, 2010
To reverse Under Billing Correction included in GAS schedule at 7-31-10 but not adjusted by SCESAG until October 2010
Less : Difference due to remaining in prior period

Beginning Balance at August 1, 2010 Per Company

Audit Exhibit J02-1

**SOUTH CAROLINA ELECTRIC AND GAS COMPANY, INC. - DOCKET NO. 2011-5-G
(OVER)UNDER REVENUE COLLECTION
FOR THE TWELVE MONTHS ENDED JULY 31, 2011**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Total Firm Commodity Cost	Total Firm Sales	Commodity Cost Per Therm (1)-(2)	Billing Commodity Cost Per Therm	Difference (3)-(4)	Commodity (Over)/Under Collection (2) X (5)	Demanded (Over)/Under Collection	Prior Month Adjustments	Total Monthly (Over)/Under Collection (6)+(7)+(8)	Cumulative (Over)/Under Collection
Feb-11 - Interest @ 1.669%	13,462,000	42,449,820	0.315714	0.43426	(0.118546)	(5,032,254)	(3,380,446)			
Unallocable-Commodity Only						1,079	(31,399)			
Feb-11 - Revenue PMA Unbilled Revenue adjustment						394	14,072,183			
Feb-11 - Unbilled Revenue adjustment						(5,030,762)	(3,347,364)			
							6,070,934	0	1,040,151	(15,492,970)
Mar-11 - Interest @ 1.1025%	8,520,802	22,268,645	0.312637	0.46447	(0.151833)	(1,822,310)	1,639,880			
Unallocable-Commodity Only						(3,216)	(45,054)			
Mar-11 - Revenue PMA Unbilled Revenue adjustment						(23,175)	3,347,334			
Mar-11 - Unbilled Revenue adjustment						(1,850,701)	(4,354,149)	0	737,360	(14,737,710)
							2,580,061			
Apr-11 - Interest @ 3.920%	4,291,981	14,630,318	0.313867	0.46447	(0.150603)	(2,263,370)	2,260,664			
Unallocable-Commodity Only						(12,184)	(20,883)			
Apr-11 - Revenue PMA Unbilled Revenue adjustment						33,472	4,354,149			
Apr-11 - Unbilled Revenue adjustment						(2,182,062)	(2,769,519)	0	1,632,329	(13,125,381)
							3,814,411			
May-11 - Interest @ 5.499%	3,419,883	8,840,915	0.386522	0.46447	(0.077643)	(484,479)	2,310,914			
Unallocable-Commodity Only						(13,375)	(21,147)			
May-11 - Revenue PMA Unbilled Revenue adjustment						60,803	2,769,519			
May-11 - Unbilled Revenue adjustment						(639,049)	(2,529,975)			
							2,529,975		1,890,362	(11,235,119)
Jun-11 - Interest @ 3.210%	2,675,119	7,882,861	0.339339	0.46447	(0.125111)	(946,233)	2,546,723			
Unallocable-Commodity Only						(16,786)	(10,007)			
Jun-11 - Revenue PMA Unbilled Revenue adjustment						54,739	2,529,975			
Jun-11 - Unbilled Revenue adjustment						(948,250)	(1,365,914)	0	2,772,537	(8,462,592)
							3,720,777			
Jul-11 - Interest @ 3.415%	2,863,973	6,397,149	0.448006	0.43202	(0.004014)	(25,678)	2,337,739			
Unallocable-Commodity Only						(13,164)	(1,736)			
Jul-11 - Revenue PMA Unbilled Revenue adjustment						37,297	1,345,914			
Jul-11 - Unbilled Revenue adjustment						(3,463)	(1,831,830)	(838,926)	1,273,590	(7,189,692)
							1,860,991			
Totals	101,127,842	225,272,397				3,297,627	3,345,341	215,548	6,362,511	
Cumulative (Over)/Under Collection at July 31, 2011										(7) (2,180,972)

Audit Exhibit J08-1

**SOUTH CAROLINA ELECTRIC AND GAS COMPANY, INC. - DOCKET NO. 2011-5-G
(OVER)UNDER REVENUE COLLECTION
FOR THE TWELVE MONTHS ENDED JULY 31, 2011**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total Firm Commodity Cost	Total Firm Sales Terms	Commodity Cost Per Therm (1) - (2)	Billing Commodity Cost Per Therm	Difference (3) - (4)	Commodity (Over)/Under Collection (2) X (5)	Desired (Over)/Under Collection	Total Monthly (Over)/Under Collection (6) + (7) + (8) Cumulative (Over)/Under Collection

Note (1): These amounts reflect, on a monthly basis, the commodity cost of gas associated with accounts deemed uncollectible, as approved by Commission Order No. 2006-679 dated November 13, 2006.

Note (2): This amount was included in the O&S ending balance for July 2010 but was not adjusted on the Company books until October 2010.

Note (3): This amount represents the adjustment for unbilled revenue as approved in Docket No. 2009-5-Q, Order No. 2009-910 dated December 29, 2009.

Note (4): This amount is the reversal of the prior month unbilled revenue adjustment.

Note (5): This adjustment is the gas reallocation of an electric adjustment approved by the PSC in Docket No. 2011-3-E, Order No. 2011-319 dated April 26, 2011.

Note (6): This adjustment is the result of an overstatement in LDC cost of gas and the accompanying cumulative carrying costs related to Jasper electric.

Note (7): This amount differs from the Company by \$583,906 as described in footnote (6) above, and \$145 due to rounding.